

4/4/08

Board of Governors of the  
Federal Reserve System

VIA E-MAIL TRANSMISSION  
[regs.comment@federalreserve.gov](mailto:regs.comment@federalreserve.gov)

RE: Proposed Amendments to Regulation Z

Dear Board of Governors,

I would like to applaud your efforts to improve Reg Z and further protect consumers. As a concerned mortgage lender for 30+ yrs, who has the customer's best interest at heart, it is important to me that consumers are protected from predatory practices and fraudulent dealings, as well as provided safe loan products that allow them to enjoy home ownership.

However, I do have some serious areas of concern about some of the proposed amendments, as I will share with you in the remainder of this letter.

Through the years as the mortgage broker industry developed, large mortgage banks and investors realized that this was a very favorable arrangement for everyone involved. Since they desired to limit or eliminate their high overhead out in the communities, they were willing to allow mortgage brokers to establish their business, originate loans and then broker or sell the loans to them. Some of the mortgage banks maintained retail offices, but most centralized their processing and underwriting departments to reduce their operating costs. This has worked very well during the years. For the most part, mortgage brokers operated efficiently and were able to provide a great service for consumers and it was profitable for the mortgage banks as well.

As more and more mortgage banks realized this was an efficient method of originating mortgage loans, they set up wholesale operations to purchase these loans. Other investors would purchase these loans as well, as long as they met certain criteria.

Over the years I worked both sides of the industry and found that the mortgage brokers were providing the same service as mortgage banks. They would originate the loans at the same rates and closing costs as the mortgage banks, and sometimes even better! The mortgage broker's income is usually derived from either, or a combination

of, origination fee, broker fee, or yield spread premium. Some times, the yield spread premium has to be used to cover some of the other closing costs for the customer. If not for the yield spread premium, the rate would be a little lower, but, the closing costs would be higher and so many times, the customer simply does not have the money available to close.

There are some important facts about the income earned by mortgage brokers:

- 1) The interest rate, origination fee, broker fee and yield spread premium is driven or dictated by very tight competition;
- 2) In general terms, mortgage brokers are charging the same rates and fees as most mortgage banks and in some of cases, **lower**.
- 3) Mortgage banks also realize the same revenue as mortgage brokers. Usually, what is referred to with mortgage brokers as yield spread premium, is referred to as service release premiums with mortgage banks.

The real point is that mortgage brokers render the same service as mortgage banks and the income realized is the same as mortgage banks. We are all selling to the same ultimate investors in the secondary market. And usually, we can even give a more favorable rate and costs outlook for the customer because we can operate leaner than a large mortgage bank. **Therefore, any new regulation should apply to all mortgage originators, regardless of whether they work for a mortgage bank or mortgage broker company.** There simply is no difference and it would be unfair and promote unfair competition to treat one differently than the other. To impose the proposed amendments on only mortgage brokers would probably drive most mortgage brokers out of business and, drive some customers to mortgage banks and this would definitely increase the costs of the consumer who we are attempting to protect.

Another important fact about these proposals is that you should know that in today's mortgage market climate, it would be virtually impossible to disclose to the customer what their rate and closing costs would be **before** certain information is obtained from the customer. We must be able to review their overall application, credit report and credit score(s), loan to value and debt to income ratios in order to quote them a rate and closing costs. This is due to adjustments that have been imposed recently by Fannie Mae and Freddie Mac and other investors who purchase loans from mortgage lenders. However, we are obligated to disclose the rate and closing costs within three days of application in the form of the present Good Faith Estimate and Truth-In-Lending disclosure. This gives us the opportunity to obtain the information that is required to apply the various adjustments mentioned above. Without this ability to review the information before we disclose the rate and closing costs would be suicide for us and not helpful to the consumer as well, as they would, in most cases, not receive a true picture of what they could expect at closing.

Therefore, I respectfully request that you attempt, as much as possible, to find other alternative methods of protecting the consumer, but would, at the same time, encourage

fair competition on price and service. This is the only way to insure we are truly helping the consumer.

Thanks for listening to my concerns and considering my comments.

Sincerely,

Linda S. Jones  
Mortgage Loan Underwriter